

## Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 EURE-00 SAM-01 AGR-05 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

DODE-00 PA-01 USIA-06 PRS-01 FEAE-00 NSC-05 SS-15

STR-04 CEA-01 /094 W

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P R 161520Z APR 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 2512

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMCONSUL LORENCO MARQUES

AMCONSUL LUANDA

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION NATO

AMEMBASSY VIENNA

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

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E.O. 11652: N/A

TAGS: ECON, EAGR, EPAP, PO

SUBJ: GOVERNMENT FREEZES PRICES OF BASIC FOODSTUFFS

REF: (A) LISBON 3590 OF AUG. 22, 1974;

(B) LISBON 3824 OF SEPT. 6, 1974.

SUMMARY: GOVERNMENT HAS FROZEN PRICES FOR NUMBER OF BASIC FOODSTUFFS UNTIL END OF YEAR, WITH FURTHER FREEZES AND EVEN REDUCTIONS POSSIBLE. DISTRIBUTION CHANNELS IN SOME SECTORS ARE TO BE "PURGED" THROUGH CREATION OF PUBLIC COMPANIES. SMALLER FARMERS ARE TO BE ASSISTED BY SOME INCREASED PRODUCER PRICES. GOVERNMENT CONTINUATION OF PRICE CONTROLS COULD BE USED TO COUNTERACT MOUNTING WAGE DEMANDS. END SUMMARY.

1. IN ACTION EXPLICITLY DESIGNED TO GUARANTEE PURCHASING POWER OF WORKING CLASSES WHILE RAISING INCOMES OF SMALL AND MEDIUM-SIZED FARMERS, COUNCIL OF MINISTERS COMMUNIQUE ANNOUNCING EXTENSIVE NEW NATIONALIZATIONS (SEPTEL) ALSO ANNOUNCED NEW PRICE AND AGRICULTURAL SUPPORT POLICY.

2. PRICES OF CERTAIN ESSENTIAL FOODSTUFFS WILL BE FROZEN UNTIL END OF YEAR. THESE ARE BREAD, MEAT, MILK, SUGAR, OLIVE OIL, FLOUR, CHICKEN, DRIED CODFISH, AND MARGARINE. REDUCTIONS IN PRICES OF PEANUT OIL AND BUTTER ARE FORESEEN. STABILIZATION OF PRICES FOR FISH, WINE, FRUIT, AND VEGETABLES WILL DEPEND UPON "PURGING" OF PRESENT DISTRIBUTION CHANNELS, NAMELY THROUGH CREATION OF PUBLIC COMPANIES IN THOSE SECTORS.

3. SMALL AND MEDIUM-SIZED FARMERS WILL BE ASSISTED BY IMMEDIATELY INCREASED PRICES TO PRODUCERS OF MILK (13 TO 25 PERCENT INCREASE), BEEF (AROUND 10 PERCENT), AND CORN (56 PERCENT). IT WAS EMPHASIZED THAT THESE INCREASES WILL NOT BE PASSED ON TO CONSUMERS.

4. PRICE FREEZE FOR SUGAR FOLLOWS 80 PERCENT PRICE RISE (TO 90 CENTS A KILO) ON MARCH 2, WHICH WAS LARGELY DUE TO ENDING OF EXTREMELY FAVORABLY-PRICED (1970 PRICES) SUGAR IMPORTS FROM MOZAMBIQUE. AT SAME TIME, PRICES FOR MEDIUM WEIGHTS OF DRIED CODFISH WERE RAISED ABOUT 44 PERCENT, ALONG WITH 40 LIMITED OFFICIAL USE

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PERCENT RAISE IN LOWEST ELECTRICITY RATE AND 6 PERCENT RAISE FOR BOTTLED GAS.

5. LAST PREVIOUS MAJOR PRICES RISE FOR BASIC NECESSITIES WAS ON AUGUST 18, 1974 (REFTEL (A)). IT WAS ANNOUNCED AT THAT TIME THAT PRICES FOR THOSE PRODUCTS WOULD NOT BE RAISED FOR AT LEAST SIX MONTHS (PARA 2, REF TEL (B)). SUGAR AND DRIED CODFISH BARELY LASTED THE SIX MONTHS.

6. COMMENT: CONTINUATION OF PRICE CONTROLS ON BASIC COMMODITIES IMPLIES SUBSIDIES AND BURDEN ON TREASURY, AND THUS REPRESENTS A REVERSAL OF LAST SUMMER'S POLICY TO GET RID OF THEM (REFTEL (B)). AT THIS JUNCTURE, HOWEVER, WHEN THE POST-MARCH 11 GOVERNMENT IS SEEKING TO PROVE ITSELF, PRICE CONTROL HAS POPULAR APPEAL. GOP COULD ALSO USE IT TO COUNTER MOUNTING PRESSURES FOR WAGE INCREASES.  
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## Message Attributes

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